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DEMOCRACY AS A FACTOR IN INDUSTRIAL EFFICIENCY

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Democracy is that condition in a society which encourages self-direction on the part of all members. The idea is as old as antiquity, and has long been favored by the teachings of Christianity. The democratic revolution, however, came in earnest in the latter part of the eighteenth and in the nineteenth centuries. In the field of personal relations, we now call democratic any disposition to respect the opinions and human worth of other people, particularly those less fortunate. In the state, democracy consists in government for and by the people. In a business enterprise, it would mean the power of employes to think, to act, to be heard on industrial matters. Striking illustrations of our varied democratic development and of its hold upon twentieth century life are the rise of the labor movement, England's long postponement of conscription, and America's moderation in dealing with her refractory southern neighbors.

To most persons it will come as a surprise that this democratic tendency of the day should be seriously advanced as an aid to industrial efficiency. Almost all Americans approve in a general way of freedom—for they like it. Especially when it comes to a man's own actions he feels that life is more worth the living if he may do as he wishes. But, at the same time, absence of authority is hardly counted a tangible business asset. On the contrary, the efficiency movement, in both the governmental and the industrial spheres, has perhaps for its central goal the furtherance of discipline, centralization, and expert control. Let the ablest men be placed in positions of authority; let these men collect and invent the best possible methods for every operation; and then let special care be taken to see that everyone follows faithfully the one most efficient method. It may be that this is the very definition of "efficiency" for most of us.

Matter of course though this idea seems to have become, it

is nevertheless here proposed to challenge it. The first test to which our faith in centralization will be put will be an analysis of some of the world's experience in the matter. Most of this part of the paper will be devoted to Germany, it being particularly to the point to dispel the feeling that German experience has vitiated once for all any attempt to find an efficiency in democracy.

The simplest method of estimating the character and value of German efficiency is to compare Germany with England or France. France and England are regarded as the homes of democracy—France, especially, in her philosophy; England in daily life. Germany, on the other hand, believes firmly in bureaucracy and paternalism. What does a comparison of the achievements of the two cultures show? It shows, so the advocates of democracy allege, that all the great modern achievements—the parliamentary system, the eighteenth century mechanical inventions, modern philosophy and literature in its earlier development, the Industrial Revolution, the development of commerce, of navigation, of colonies, modern science—all these originated mostly in England, though to some extent in France. Here the Germans protest. They do not care for ancient history. They are sure that in recent times their country has forged ahead much more rapidly than any other country. What if this should be so—the democrats urge—does it follow that a centralized state, even if efficient in importing civilization, is the kind that can develop it in the first place? Japan and Germany may borrow, but only a democratic people can originate.

Our vision is considerably cleared by these reflections; and yet the method minimizes the importance of certain details. Germany, after all, has made some signal contributions to human progress, especially in the last half century. And, on the other hand, Germany is not as thoroughly undemocratic as one is inclined to assume. A stronger case can therefore be made out by inquiring into the roots of Germany's own progress; for we believe it can be demonstrated that, even in Germany, efficiency has been conditioned by a certain progress towards democracy.

Education, philosophy, and science, for example, constitute one of the great fields of distinctively German advance. But can this be said to be a proof of the efficiency of centralization? Probably the world does not contain anything that is actually freer than

a German university. Her numerous universities are not a part of a coördinated system. Her professors (in normal times) have the greatest freedom of speech and relief from routine duties. Her students may study or not, attend class or not, in fact are their own masters. Professor Schumpeter, of the Austrian university of Gratz, while exchange professor at Columbia once remarked in his engaging way that he preferred the American universities to the Austrian universities, because the Austrian were too democratic. In his view, the professors were too much in the habit of doing just as they pleased, regardless of the will of central authority. We need only append that, despite the Austrian's generous flattery, it is an outstanding fact in the history of economics, Professor Schumpeter's own subject, that for a generation the thought of Austrian professors has led the world.

Again Germany is famous for the splendid management of her municipalities. But here again it must be observed that the German cities are unique in the freedom that they enjoy from central dictation. Great as has been the emphasis recently laid upon the centralized character of Germany's government, the real fact is that through all of the many centuries of Germany's political life (excepting the last forty-five years) Germany has been the one great decentralized power. The failure of Germany to accomplish much during this long period (excepting the Reformation) shows that decentralization does not alone guarantee progress. But, on the other hand, her recent progress has been made under a government whose centralization is conspicuous, rather than thorough. A people's habits cannot be changed in a day. The difference between German centralization and Russian centralization is that the German government has had available for its purposes a great store of force engendered by at least partially democratic institutions. Her empire has in large part meant the union rather than the blotting out of local units. This is true particularly of some of the south German states, and most of all of the cities, that is, if one considers their internal affairs, and not their relation to imperial politics.

In the strictly economic field, the activity of German banking institutions, and the stimulus applied to business by the government itself, would suggest that centralization was an important factor in German success. Evidence from several quarters, how-

ever, shows that her transformation was not effected without a great increase in free activity, and, in fact, was occasioned by it.

Sombart, in his careful review of the economic development of Germany,¹ tells us that in the period between the close of the Middle Ages and the beginning of the nineteenth century the German princes were the chief inspiration of progress. They regarded their territories as their own estates, knew all that was going on in them, and constantly furthered their subjects' interests and industries. Sombart is very explicit, however, in his attempt to forestall the idea that these princes, the dominant authoritative class of their time, were responsible for the making of modern Germany. Credit for this belonged to a new class of capitalists, who derived their opportunity from the introduction of England's "liberal ideas"; that is, England's conception of free industry.

In these days of apprehension concerning big business, it is hard to realize that, compared with what went before, capitalism marks a gigantic step in the direction of democracy. Just as the separation of church from state made for religious freedom and spiritual development, so the separation of industry from the state and from feudal control meant emancipation and progress. Under capitalism, whoever has the funds, or can obtain the credit, can enter almost any business that he wishes, and the pursuit of business is practically independent of outside control. Today, we realize that the system often brings oppression in its wake; but this is an incidental consequence. Capitalism in its innermost nature is one of the most democratic (and at the same time perhaps the most efficient) of all the institutions that the world has known.

Taking up specific German industries, her government-owned railway system would seem to offer the clearest case of centralization. But even here there is no conclusive evidence that efficiency has proceeded from the top down. Sombart notes that in their formative period the German railways were in private hands, and not until the foundations for success had been securely laid did the government take most of them over.² He partly spoils his testimony for our point, however, by ascribing to the incorporation of the railway service in the civil wing of the army the present faithful conduct of railway employes, as also that of postal em-

¹ *Die deutsche Volkswirtschaft im Neunzehnten Jahrhundert*, 72-76.

² *Ibid.*, 281.

ployes.³ Only under military organization, he thinks, is it possible to attain that perfect discipline and regularity necessary in these services. That he is right on this last point, however, will be doubted by anyone familiar with the privately operated telephone service of various American cities.

Possibly a more typical industry, and certainly one that represents more truly the advance current in German expansion is the chemical industry. German progress here, according to Marshall, may be attributed to "the diffusion of scientific knowledge among the middle and even the working classes of Germany, combined with their familiarity with modern languages and their habits of travelling in pursuit of instruction."⁴ Widespread education, however, is democratic in its very nature. The only object in educating the working classes along technical lines is to enable them to exercise greater personal force in industry. Furthermore, the methods of German education make for independent efficiency, not only in the universities, as we have seen, but in the schools for the working class. For these have derived much of their spirit from Pestalozzi, the Swiss educational reformer, whose main idea was that all the powers of the individual should be developed. It is evident, then, that Germany could not have made the great forward strides that she has made in the chemical and other industries without drawing heavily upon the training, initiative, good will, and freedom of her middle and lower ranks.

The German kartels would hardly seem at first glance to be seats of democracy. And yet, if the kartel be compared with the American trust or consolidation, it is apparent that the former is a looser, freer organization. The typical American trust is an amalgamation. Production, as well as selling policies, are controlled from the center. But in Germany the constituent companies retain their independence,⁵ combining only to fix prices and outputs. And furthermore, while the German government has sanctioned and become a part owner in some of the kartels, they originated in obscurity,⁶ and in only a few cases have been brought into being by the government.

³ *Ibid*, 320.

⁴ *Principles of Economics*, 6th ed., 211.

⁵ Sombart, *op. cit.*, 370.

⁶ *Ibid*, 368.

Though we have examined at length the influence of democracy in the main fields of German progress, this does not mean that Germany has been very deeply democratic or that the advantages of democracy are there best exemplified. The contrary is the case. But it is a curious and significant fact that in the case of the one nation which most boasts of centralization, of discipline, of bureaucracy, of the overman—a closer view should show that an indispensable element in her progress has been the emancipation of her forces from the rule of authority and the rise to power and free activity of large numbers of her people. It shows that while the German qualities of forethought, perseverance, coöperation, and loyalty to the state (would that it were to mankind!) may be an example to us, these qualities have not yet shown their ability to take the place of democracy; but, on the contrary, their real worth is apparent only when they are supplementary to it. Discipline is neither honorable nor efficient except when in the service of free and intelligent choice.

The conclusion found to hold true in the case of Germany may now be advanced as one of world-wide application. Take, for instance, the administration of colonies. It is remembered that France, Spain, Portugal, and England once all administered their colonies in the interests of the mother country. In some cases—and this was particularly true in the instance of France—they did so under a highly centralized system. All these early colonial systems were failures. England, alone, learned the lesson. Today Canada, Australia, and South Africa are almost as free as the United States; and not only have they been the most prosperous colonies of modern times, but—and this was one of the greatest surprises of the war to those autocratically inclined—they have in emergency rallied to the support of the mother country. Democracy in the management of colonies has proved efficient. It is second in value only to independence.

Or, take that vital test of national efficiency in these days, the ability of a nation to get along well with its neighbors. This means avoidance of dangerous wars, or in case of a dangerous war, effective alliance. No single nation, unaided, could possibly long withstand the world; and national life therefore depends in the last analysis upon the tolerance of a nation's neighbors—or, at least, a part of them. It is too early yet to be certain whether democracy

has surpassed coercion in its ability to form and maintain alliances; and possibly neither league in the present war has made exclusive use of one or the other of these methods. It is plain, though, that for some years past English diplomacy has been more tactful in its consideration of the interests and feelings of other countries, while German diplomacy has made some grievous errors. To the on-looker, it would seem that not the least of the sources of English strength has been her more democratic conception of international relationships; while the German leaning towards self-will has greatly magnified the task before German courage. Perhaps a little more tactfulness on England's part could have prevented the war.

Democracy, on occasion, has leavened the lowest ranks of society. "To the abilities of children of the working classes," affirms Marshall,⁷ "may be ascribed the greater part of the success of the free towns in the Middle Ages and of Scotland in recent times. Even within England itself there is a lesson of the same kind to be learnt: progress is most rapid in those parts of the country in which the greatest proportion of the leaders of industry are the sons of working men. For instance, the beginning of the manufacturing era found social distinctions more closely marked and more firmly established in the South than in the North of England. In the South something of a spirit of caste has held back the working men and the sons of working men from rising to posts of command. . . ."

In England, and in the world at large, the history of industrial evolution has been but little more than an account of the rise of free industry. The unconscious beginnings of this great movement—which, in time, was to go by the name of *laissez-faire*—still live for us in the words of Gross:⁸

Among the silent but great revolutions of English municipal history, the story of which has never yet been adequately recorded, is the wide-spread decay of once powerful boroughs in the fifteenth and sixteenth centuries. . . . There can be no doubt that the Gild Merchant was one of the most potent factors that led to this revolution. The tyranny of the gilds, which the public statutes of that period so strongly condemn, drove commerce and industry to rural districts and to smaller "free-trade" towns, such as Birmingham, Manchester, and

⁷*Principles of Economics*, 6th ed., 213.

⁸*The Gild Merchant*, i, 51.

Leeds, where their natural, spontaneous expansion was not hampered by ancient privileges. Thus the rigid protection of the older chartered boroughs sapped their commercial prosperity, silencing the once busy looms of Norwich and Exeter, and sweeping away the cloth-halls of York and Winchester.

More general illustrations of the advantages of freedom over direction are the superiority of free to slave labor; the superiority of family to institutional life; the greater efficiency of housewives as compared to servants; the greater strength of character of children who have been allowed to try their own hand in things as compared with those who have been too completely protected.

Our argument, however, should be clinched by something more than historical analogy. Who knows but that the rapidly changing conditions of today have removed some of the advantages of democracy? Surely, they have had some effect.

Looking over the general situation, it is not hard to detect several movements which seem favorable to centralization. Take improvement in communication. The cost of transmitting instructions once forbade centralization,—except in matters of first importance. But of late, better mail service, the telegraph, the telephone, the typewriter, the printing press, the perfection of instruction cards, of forms, the development of trustworthy industrial lieutenants have made it possible for the will of central authority to give commands over extensive areas. Where before detailed direction would have been impossible, now it is both easy and cheap. Again, consider the effect of standardization. The grading and labeling of materials, as cotton and iron, the standardization of tools and of general methods brings it about that large numbers of workmen work under almost identical conditions and, more important yet, under known conditions. This facilitates a hitherto unthought of refinement of instructions. Lastly, a rapid but unbalanced increase in technical knowledge has made some men so much more capable than others that transference of skill has become highly profitable. All these are important changes, and constitute, it would seem, the chief cause of such centralization and advocacy of centralization as the world has recently seen.

But, on the other hand, certain conditions which have hitherto impaired the efficiency of democracy are also being undermined. The most serious menace that could possibly threaten an industry attempting democratic organization would be a lack of interest on

the part of employes in the success of their work. The main reason why scientific management started with an undemocratic turn was because so many modern workmen would prefer not to be efficient. By a pernicious labor philosophy, large output is supposed to cause unemployment. Employers and employes, too, have been so completely isolated from one another that jealousy rather than good will has been the normal attitude. Unless this feeling can be removed, coercion is, of course, more efficient than democracy; for freedom is profitable only when that freedom will be used for good. Today, this lack of interest on the part of workmen is being attacked from many angles. The one condition, however, which will do the most to remove it will be a change in the spirit of industrial management itself, which will make it representative of employes and customers, as well as of capital. In other words, democracy in the ends of an organization removes the one greatest obstacle to democracy in method. And democracy in ends is going to be forced on all sides—and before long.

A second reason why democracy in industry has only been partial is lack of widespread or thorough education. There is little advantage in encouraging workmen to suggest and decide things if they have nothing to offer. Personal power is at the basis of all freedom and of all true democracy. But the future will witness a leveling of educational advantages both as regards academic education and the larger education of life. Not only is common school, high school, technical, and university education on the increase; but agencies such as the trade journal, the convention, moving pictures, and easy travel give the mechanic or small enterpriser advantages formerly enjoyed only by established leaders. Secrecy is on the decline, technical advertising is becoming more helpful, labor more mobile. There can be little doubt but that if one man knows less in the future than another it will be largely because he is less aggressive or less talented. Bad fortune in these respects will not, as formerly, be foreordained for the masses.

A third inefficiency of democracy has been its lack of organization. Waste, lack of unity, competition, duplication have too often undone it. But today we are learning that even without departing from the principle of freedom these weaknesses can be diminished. In the fields of business, politics, religion, and educa-

tion genuine coöperation has made gigantic strides. It now seems that free individuals can coöperate with almost as much unity as though they were all under one common authority. They are, indeed, free to tear each others' projects to pieces, if they wish. But they are learning not to do so. Progress in coöperation is helped by the growing tendency to leave to others—particularly to one's leaders—the making of many decisions. Democracy, too, in time develops its own checks that make it increasingly difficult for an individual to aggrandize himself other than by some net addition to human welfare.

After balancing these developments of the day, one against another, we see no reason to anticipate that the democratic tide in the future will be less powerful or less fortunate than in the past. True, there may be a growth of what many will term centralization. Standardization, system, and the discoveries of efficiency engineers will warrant the establishment of central bureaus and agencies for the coördination of industrial effort. But that in their actual working out the new industrial forms will be less democratic than the old, the immense strengthening of democratic forces now in progress makes very unlikely.

It is now time to lay down a few of the principles which make for the efficiency of democracy. In the first place, let us note how impossible it would be for a few persons to give real life to a complicated industrial system such as ours.

It might be thought that if we could only find the right sort of man for a king, he could tell his governors what to do, they could tell their lieutenants, and the word could be passed on from rank to rank until the manual workers would be directed by the superior wisdom of the good king. But the theory forgets that the king has only one pair of eyes, that he can be in only one place at one time, and that his realm is wide and diversified. In fact, neither the king, nor the governors, nor the lieutenants can know all that is going on. Much as standardization may facilitate the giving of directions, it is doubtful whether it is overtaking the growing complexity of industrial life. Certainly, standardization can never vanquish it. The fact remains, therefore, that all direction cannot come from above; and that the truly valuable workman is the man who can use his head to supplement his hands. After all, it is labor's power to adapt that is at the basis of labor's

usefulness, as distinguished from that of brainless machinery or blind natural force. That industrial system which succeeds in availing itself most largely of the originating capacity in human nature is, therefore, most efficiently exploiting industry's one most necessary and most promising resource.

A second and greater misapprehension on the part of those who would do away with democracy is concerning the mechanism of progress. Progress is largely the product of invention, large and small. It is thought that centralization will reinforce discovery and that it will rapidly spread new ideas. It must be admitted that the opportunities of those high in authority are so great that when it comes to matters especially in their charge they sometimes make more improvements than all others. Frequently no one else is in a position to understand fully the situation. But when it comes to developments radically new, it is more apt to be the other way. Those high in authority under an old system are more or less dubious about change. Furthermore, they are numerically weak, and, having little special advantage, the chances are not one in ten thousand that they, rather than some person having no authority in the matter, will hit upon the fruitful idea. Thus inventions have always come from the most unexpected quarters, and the greatest of world institutions have had, in their beginnings, to fight the persecutions of those in authority. Originating power is widely scattered, no one knows where. An invention, when it comes, is in its very nature a surprise. The only way to gather the full fruits of man's tendency to progress is to allow the greatest possible number to pursue their own ideas, and then trust that the worthy innovation will fight its way through to recognition.

It might be argued further that democracy may count on the will of the worker; that the right kind of democracy is an insurance against revolution; and finally that—efficient or not efficient—freedom is what people want and will have,—which settles it. All these are good points. But sufficient justification for democracy has already been found in the evidence that rigid control is inadequate for mobilizing intelligence. A certain coördination may be impressed from above. But the great stream of intelligence, of adaptation, of progress proceeds from the bottom up, and not from the top down. The top itself is largely recruited from the bottom.

Democracy we have defined as that condition in a society which encourages self-direction on the part of the mass of its members. Such a social order has been condemned by many who feel that the rise of scientific management and of German *kultur* has demonstrated democracy's essential inefficiency. We have endeavored to uncover the error in this idea. The present struggle between Germany and England, between efficiency and the labor unions, is in reality a struggle only between types of democracy, or between that which calls itself democracy and that which does not—but could properly do so. If superficial clashings as to terminology, as to outward form, or national temperament be disregarded, it appears that under all progressive systems alike, the individual is becoming more active; his coöperation is becoming more essential; and his influence is more widely felt than formerly.

This position not being the common one, we endeavored to establish it by reference to the German university system and the German municipal system; by a study of the rise of German capitalism; by conclusions drawn from the building-up of the German railway system, and the German chemical industries; by an examination of the German kartel. Other successes of democracy were recorded,—in the field of colonial administration, and that of foreign relations. As proof of the efficiency of democracy in industry, we noted Marshall's explanation of the rise of north England at the expense of the South; and Gross' explanation of the decay of England's mediaeval towns and the rise of her modern industrial centers. Had it been desired to push the argument further, probably it could have been shown that even in the military sphere, belligerents are now laying more stress upon the valor, intelligence, and initiative of the individual soldier than in previous wars; while surely an overwhelming argument for democracy could have been made had we searched out the causes of the great Russian reverses of 1915.

The promise of a greater future development for democracy was next found in the establishment of a social order more squarely founded upon mutual interest; in the coming revolutionary opening-up of educational opportunities; and in the construction of voluntary associations, capable of coördinating and unifying individualistic endeavor. The inherent merit in democracy was found to

consist in its superior flexibility and in its capacity for progress,—in addition to its interaction with the human will.

In view of these facts, we Americans should not regard our traditional democracy as an outworn system. We should, it is true, always be ready to open up new channels for its life. The demand of the day is for higher standards, for a firmer self-discipline, for a new talent for heeding expert advice. Scientific management and order should be new keynotes for the American spirit. In pushing forward these new developments, however, let us not neglect the basic principle of freedom.

PERSONAL RELATIONSHIP AS A BASIS OF SCIENTIFIC MANAGEMENT¹

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Given two establishments in the same industry, in the same locality, build for them the same buildings, equip them with the same machinery and establish for them similar methods of handling equipment and materials—yet, in the course of a short time, there will be a difference in both the quantity and the quality of their output. This difference in result will be caused by the difference between the two in the quality of their personnel. For this reason alone the question of personnel must ultimately be considered the real problem of management.

If one of the above plants were headed by a management of the ordinary or traditional type and the other by a management which fully realized the importance of personnel and had developed an active philosophy tending toward the solution of the personal problem, the difference in practical results would be so great as to be unbelievable by the uninitiated. In fact, this difference alone would often spell failure in the one case and success in the other.

The managers of both plants would see the shortsightedness of letting buildings and other equipment run down for lack of upkeep

¹ A paper read before the Society to Promote the 'Science of Management, Philadelphia, Pa., October 23, 1915.